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SIPDIS

TREASURY FOR TRACI PHILLIPS

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SUBJECT: EU SANCTION FORCES SPAIN'S SHIPBUILDER INTO
RESTRUCTURING OR BANKRUPTCY

1. SUMMARY. The Spanish press reported late July that the European Commission has ruled that Spain's Izar Naval Constructions, a quasi-public company, violated the terms of EU aid for the shipbuilding industry and must return EUR 1.1 billion (USD 1.35 billion). This payment return threatens the solvency of Izar and has prompted the GOS to initiate a company restructuring, separating the civil and military sectors. Spanish unions fear this plan will result in a huge amount of job losses and are considering action to prevent the dissolution. END SUMMARY.

EC POSITION

2. The Commission is demanding the payment of EUR 1.1 billion (USD 1.35 billion) from Izar for the improper use of EU public aid funding in shipyard restructuring. In 1997, the Commission and the European Council approved restructuring aid for the then publicly owned Spanish shipyards amounting to EUR 1.38 billion (USD 1.69 billion) on the condition that no further aid would be provided. Between 1999 and 2000, the State Society of Participating Industries (SEPI), the Spanish majority shareholder of Izar, granted EUR 500 million (USD 614 billion) in further aid to the civil public shipyards that are today owned by Izar. SEPI granted aid in the form of a capital injection worth EUR 252.4 million (USD 309.6 million), a loan worth EUR 192.1 million (USD 235.7 million), and paid a purchase price allegedly above market value. This further aid is perceived as giving Izar an uncompetitive advantage in the shipbuilding industry, and shipyards in other EU Member States and other Spanish competitors have filed complaints.

GOS PLAN

3. Izar is Spain's leading civil and military shipbuilding company, created in December 2000 following the merger of Astilleros Espanoles S.A. and Empresa Nacional Bazan. To prevent Izar from entering bankruptcy after paying the EC, the GOS has proposed the creation of a society of naval shipbuilders, where military activity will be separated from civil activity. If restructuring does not take place, the GOS has predicted that Izar will become bankrupt four months after repayment. This separation would result in the closing of most of Izar's facilities, as the GOS has deemed that only two out of the eight facilities (Ferrol and Cartagena) meet a standard of acceptable activity.⁸ In addition, the GOS expects to draw capital from the private sector through the sale of Izar's motor production arm from Manises and its shipyards in Sevilla.

UNION CONCERN

4. The Spanish press also reported that the General Trade Union of Workers and the Workers' Commission have announced that they will attend the next SEPI meeting scheduled for September 7 to seek clarification on the specifics of the government plan. Further, they anticipate presenting some alternatives⁸ and opinions⁸ to the presumed measures. If SEPI confirms the separation of civil and military shipyards, the unions have promised to schedule a series of demonstrations. Workers fear huge job losses if the civil and military sectors are separated.

5. COMMENT. Considering that the GOS is a majority shareholder of Izar through SEPI, it has the power to make the changes it deems necessary. Izar has a coveted position in the shipbuilding industry in Europe and the GOS wants to protect that role even at the expense of some job losses. Whether the unions have the ability to prevent the government plan remains to be tested. If the unions rally in September, this will be a major test of the new Socialist government's strength over the labor unions. END COMMENT.

MANZANARES